



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Paul Krutko

**SUBJECT:** Revolving Loan Fund

**DATE:** May 28, 2008

Approved

*Christine J. Shippey*

Date

*5-28-08*

## RECOMMENDATION

Approve Staff recommendation to modify the budget proposal and transfer the loan servicing function of the Revolving Loan Fund to the City's Housing Department and to direct staff to explore options for contracting with an organization specializing in micro- and small-business lending during the upcoming year.

## BACKGROUND

Since the Revolving Loan Fund Program (RLF) was established over 25 years ago, almost 170 loans have been made for approximately \$4,000,000. Currently, there are 42 active loans with outstanding balances of \$765,000.

The main objective of the RLF program centers upon community revitalization. The RLF supports the start-up and expansion of small businesses, which contributes to the creation and retention of jobs for San Jose residents, increased investment in blighted areas, and fewer vacant facilities.

Although there are a variety of conventional loan programs that exist for small businesses, RLF clients are traditionally not served by the private sector banks. Conventional financial tools are not available to businesses seeking loans under \$50,000 that have been operating less than three years, or who are considered "high risk" because of other factors often outside the entrepreneur's control (e.g. economic downturns, high cost of borrowing). The RLF program requires personal guarantees from all the borrowers, regardless of whether the business is a sole proprietorship or a corporation. Businesses assets are pledged as collateral for all loans in the form of a Uniform Commercial Code (UCC-1) filing with the State of California. When appropriate, the Loan Administration Board (LAB) will also require a deed of trust against the borrower's home.

Staff with the City of San Jose Office of Economic Development (OED) took over the direct administration, loan underwriting and loan servicing of the RLF program in December 2006.

Prior to that the City had contracted with an outside entity for loan packaging administrative services.

### **ANALYSIS**

The City Manager's Proposed Budget recommends transferring the RLF program and three OED staff to the Redevelopment Agency (RDA) in Fiscal Year 2008-2009. The salary and benefit costs of all three staff members are currently being supported by non-General Fund resources. Two of the staff support the RLF program. The third is responsible for the Enterprise Zone program. Subsequent discussions with the RDA have resulted in RDA being willing to accept the transfer of the three staff members to manage the Agency's Small Business Loan Program (RDA funded) and the Enterprise Zone Program. The Agency cannot accept responsibility for the RLF Program.

An alternative approach is one proposed by the City's Housing Department. Housing will now assume responsibility for the servicing of the 42 RLF loans currently outstanding. In addition, OED staff will explore options to contract the loan underwriting and servicing of new loans to organizations that have a strong track record in micro and small business lending and related loan servicing. Such an approach may have the benefit of leveraging non-City funds for small business lending. By example, Lenders for Community Development has a strong track record in lending to micro and small businesses within our local community.

Staff will coordinate with the LAB members to seek their input as to alternative delivery mechanisms. The recommended RLF delivery strategy will be brought forward as a City Council action.

### **COORDINATION**

This MBA has been coordinated with the Manager's Budget Office, the City's Housing Department, and the City of San Jose's Redevelopment Agency.

  
PAUL KRUTKO  
Chief Development Officer